

Message Text

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ACTION EA-10

INFO OCT-01 ISO-00 AGR-05 CIAE-00 COME-00 EB-07 INR-07

LAB-04 NSAE-00 RSC-01 SP-02 STR-01 TRSE-00 CIEP-01

FRB-03 OMB-01 L-02 /045 W

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R 300900Z JAN 75

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 241

INFO AMEMBASSY BANGKOK

AMEMBASSY SEOUL

AMEMBASSY TAIPEI

C O N F I D E N T I A L MANILA 1344

DEPARTMENT PASS AGRICULTURE/WILLIAMS/COTTON/FMD/FAS

E.O. 11652: GDS

TAGS: EAGR, ETRD, RP

SUBJECT: COTTON CONTRACTS

REF: STATE 019644

1. PHILIPPINE TEXTILE MILLS AND INVOLVED GOVERNMENT AGENCIES CAN BE EXPECTED TO HAVE FURTHER DIFFICULTY IN ACCEPTING SOLUTION SO FAR PROPOSED TO COTTON CONTRACT PROBLEM WHICH IMPOSES UPON PHILIPPINE PARTIES ALL FINANCIAL COSTS ASSOCIATED WITH ENFORCEMENT OF CONTRACTS. SHIPPERS' AGREEMENT TO SUBSIDIZE STORAGE COSTS COULD THEREFORE BE USEFUL, BUT IT IS DOUBTFUL FILIPINOS WOULD BE PERSUADED BY IT. EMBASSY DOES NOT BELIEVE THAT THIS STEP ALONE SHOULD BE COUNTED ON TO DO MUCH TO SOLVE THE PROBLEM. AS INDICATED IN PARA 4 STORAGE COSTS ON COTTON INVOLVED IN OVERDUE CONTRACTS ARE SMALL IN RELATION TO GAP BETWEEN CONTRACTED AND SPOT PRICE OF COTTON. IN ADDITION, LOCAL AGENTS OF LARGE SHIPPERS ALREADY HAVE INDICATED THAT THEY PREPARED NEGOTIATE ON CARRYING CHARGES ONCE LETTERS OF CREDIT ARE OPENED.

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2. WILLINGNESS OF MILLS TO HONOR CONTRACTS WILL NECESSARILY DEPEND HEAVILY ON THEIR NEED FOR COTTON AND THEIR ABILITY TO PAY FOR IT. GIVEN CURRENT FINANCIAL CONDITION OF MANY MILLS, LARGE INVENTORY OF FINISHED GOODS AND WEAK DEMAND, MILLS ARE UNWILLING MAINTAIN MORE COTTON IN STOCK THAN REQUIRED FOR CURRENT PRODUCTION. MOREOVER, SOME MILLS WITH ALREADY ACUTE DEBT SITUATIONS UNABLE TO RAISE 12.5 PERCENT PRIOR DEPOSIT ON L/C'S AND OTHER CANNOT POST COLLATERAL FOR VALUE OF L/C.

3. WHILE DOUBTFUL THAT GOP PROPOSALS, ONCE THEY ARE REVEALED, WILL PROVIDE FOR MERE COMPLIANCE WITH CONTRACTS, EMBASSY BELIEVES THAT BEST TACTIC IS TO AWAIT GOP PROPOSALS PROMISED DURING ASSISTANT SECRETARY YEUTTER'S VISIT. ONCE THESE PROPOSALS ARE IN HAND, STEPS SHIPPERS MIGHT SUBSEQUENTLY TAKE TO RESOLVE PROBLEM CAN BETTER BE ASSESSED. AT THIS TIME, HOWEVER, NEGOTIATIONS BY SHIPPERS ON CARRYING CHARGES COULD UNDERCUT EFFORTS TO OBTAIN GOP PROPOSALS.

4. ACCORDING TO TRADE SOURCES, PRIVATELY OWNED, CUSTOMS-APPROVED, BONDED WAREHOUSING CHARGES IN THE PHILIPPINES WERE ABOUT 357 U.S. DOLLARS PER MONTH PER THOUSAND BALES LAST YEAR; HOWEVER, RENTS HAVE INCREASED 30 TO 35 PERCENT IN THE PAST YEAR. COMPARABLE U.S. CHARGES CAN BE PROVIDED BY USDA AND ACSA.

5. FYI, AGATTACHE REPORTS THAT LOCAL AGENTS OF U.S. SHIPPERS HAVE AN EMBARRASSING FAMILIARITY WITH CONTENT OF SOME OF OUR MESSAGES ON THIS SUBJECT. END FYI. TRUST DIALOGUE WITH PARENTS CAN BE CONDUCTED SO AS TO AVOID SUCH POTENTIALLY UNDERCUTTING FEEDBACK.
SULLIVAN

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: COTTON, TEXTILES, TRADE COMPLAINTS, CONTRACTS
Control Number: n/a
Copy: SINGLE
Draft Date: 30 JAN 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: WorrelSW
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975MANILA01344
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750034-0448
From: MANILA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t1975017/aaaaafsp.tel
Line Count: 94
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 75 STATE 019644
Review Action: RELEASED, APPROVED
Review Authority: WorrelSW
Review Comment: n/a
Review Content Flags:
Review Date: 16 JUL 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <16 JUL 2003 by ShawDG>; APPROVED <18 NOV 2003 by WorrelSW>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: COTTON CONTRACTS
TAGS: EAGR, ETRD, RP, US
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006